



MILITARY RETIREMENT INCOME AND STATE INCOME TAX

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Currently, 14 of the 41 states with income tax do not tax military retirement income.

Connecticut exempts 50% of military retirement income from income tax.

In 2012, 9,157 Connecticut veterans claimed the exemption.

ISSUES

How do states tax military retirement income (i.e., pension)? Specifically, which states fully exempt military retirement income from income tax? How many Connecticut residents claimed the 50% military retirement income exemption in 2012?

SUMMARY

Currently 14 of the 41 states that levy an income tax do not tax military retirement income. They include Massachusetts, New Jersey, New York, and Pennsylvania in the Northeast. The others are

Alabama, Hawaii, Illinois, Iowa, Kansas, Louisiana, Michigan, Mississippi, Ohio, and Wisconsin. Additionally, beginning in 2016, Missouri will also start fully exempting military retirement income.

By law, Connecticut exempts 50% of federally taxable military retirement income from the state income tax ([CGS § 12-701\(20\)\(B\)\(xvii\)](#)). According to the Department of Revenue Services, for the 2012 tax year, 9,157 veterans claimed the exemption.

Table 1 shows how all 50 jurisdictions treat military retirement income for state income tax purposes. In some cases, the retiree must meet a minimum age requirement or other criteria to qualify for exemptions.

Table 1: State Tax Exemption for Military Retirement Income

State	Exemption Type	Amount of Exemption
Alabama	Full Exemption	100% (Ala. Code § 40-18-20)
Alaska	No state income tax	N/A
Arizona	Military Retirement Income Exemption	Up to \$2,500 exemption (Ariz. Rev. Stat. § 43-1022)
Arkansas	General Retirement Income Exemption	Up to \$6,000 (Ark. Code Ann. § 26-51-307)
California	None	None; follows federal rules
Colorado	General Retirement Income Exemption	Up to \$20,000 for those age 55 to 65; up to \$24,000 for those age 65 or older (Colo. Rev. Stat. § 39-22-104)
Connecticut	Military Retirement Income Exemption	50% exemption of federally taxable military retirement income (CGS § 12-701)
Delaware	General Retirement Income Exemption	Up to \$2,000 for those under age 60; up to \$12,500 for those over age 60 (Del. Code Ann. tit. 30, § 1106)
Florida	No state income tax	N/A
Georgia	General Retirement Income Exemption	Up to \$35,000 for those age 62 to 65 or who are permanently and totally disabled; up to \$65,000 for those over age 65 (Ga. Code Ann. § 48-7-27)
Hawaii	Full Exemption	100% (Haw. Rev. Stat. § 235-7)
Idaho	Military Retirement Income Exemption	Varies from year to year, up to the maximum allowable under the Social Security Act, with certain deductions (e.g., For 2014, up to \$47,556 for those married filing jointly and over age 65)(Idaho Code Ann. § 63-3022A)
Illinois	Full Exemption	100% (35 Ill. Comp. Stat. 5/203)
Indiana	Military Retirement Income Exemption	Up to \$5,000 (Ind. Code § 6-3-2-4)
Iowa	Full Exemption	100% (Iowa Code § 422.5)
Kansas	Full Exemption	100% (Kan. Stat. Ann. § 79-32, 117)

Table 1 (Cont.)

State	Exemption Type	Amount of Exemption
Kentucky	Full Exemption for those who retired before 1997, income exemption for those who retired after	100% for those who retired before January 1, 1998; prorated exemptions for those who retire after this date, up to \$41,110 (Ky. Rev. Stat. Ann. § 141.010)
Louisiana	Full Exemption	100% (La. Rev. Stat. Ann. § 44.2)
Maine	General Retirement Income Exemption	Up to \$10,000 (Me. Rev. Stat. Ann. tit. 36 § 5122 (2)(M))
Maryland	General Retirement Income Exemption	Up to \$5,000 (Md. Code Ann., Tax-Gen § 10-207)
Massachusetts	Full Exemption	100% (Mass. Gen. Laws Ann. ch. 62, § 2(a)(2)(E))
Michigan	Full Exemption	100% (Mich. Comp. Laws § 206.30)
Minnesota	General Retirement Income Exemption	Up to \$12,000 for married taxpayer; up to \$9,600 for single taxpayer; and up to \$6,000 for married taxpayer filing separately (Minn. Stat. § 290.0802)
Mississippi	Full Exemption	100% (Miss. Code Ann. § 27-7-15)
Missouri	Military Retirement Income Exemption with increases that will make it a full exemption in 2016	75% for 2014 tax year; 90% for 2015 tax year; and full exemption for 2016 and subsequent tax years (Mo. Rev. Stat. § 143.124)
Montana	General Retirement Income Exemption	Up to \$3,600 if adjusted gross income (AGI) is less than \$30,000 and the exemption is phased as AGI grows (Mont. Code Ann. § 15-30-2110(2)(c))
Nebraska	Military Retirement Income Exemption	Starting in 2015, a taxpayer may make a one-time election to choose to exclude either (1) 40% of his or her military retirement income for seven years after election or (2) 15% for all years after age 67 (Neb. Rev. Stat. § 77-2716(14))
Nevada	No state income tax	N/A
New Hampshire	No state income tax (only for dividends and interest income)	N/A
New Jersey	Full Exemption	100% (N.J. Stat. Ann. § 54A:6-26)

Table 1 (Cont.)

State	Exemption Type	Amount of Exemption
New Mexico	General Retirement Income Exemption	Up to \$8,000 for low income individuals over age 65 (e.g., \$30,000 AGI for heads of households) and the exemption is phased as AGI grows (N.M. Stat. § 7-2-5.2)
New York	Full Exemption	100% (N.Y. Tax Law § 612)
North Carolina	No, except full exemption for certain individuals based on court case	None; follows federal rules, except if the retiree has five or more years of creditable service as of August 12, 1989, then his or her retirement plan is not subject to state tax (N.C. Gen. Stat. § 105-153.5(b)(5)).
North Dakota	None	None; follows federal rules
Ohio	Full Exemption	100% (Ohio Rev. Code Ann. § 5747.01(A)(26))
Oklahoma	Military Retirement Income Exemption	Greater of 75% or \$10,000 (Okla. Stat. tit. 68, § 2358)
Oregon	Generally None	Generally none; follows federal rules, except if the federal retirement income is from before October 1, 1991, an exemption formula is available (Or. Rev. Sta. § 316.680(1)(f))
Pennsylvania	Full Exemption	100% (72 Pa. Cons. Stat. § 7301(d))
Rhode Island	None	None; follows federal rules
South Carolina	General Retirement Income Exemption	Up to \$3,000 for those under age 65; up to \$10,000 for those over age 65 (S.C. Code Ann. § 12-6-1170)
South Dakota	No state income tax	N/A
Tennessee	No state income tax (only for dividends and interest income)	N/A
Texas	No state income tax	N/A
Utah	None, previous exemption replaced with tax credit	Previous tax exemption was replaced with a tax credit of up to \$450, which is phased out beginning at \$25,000 (Utah Code Ann. § 59-10-1019)
Vermont	None	None; follows federal rules

Table 1 (Cont.)

State	Exemption Type	Amount of Exemption
Virginia	General Retirement Income Exemption	Up to \$12,000 for those over age 65 with the exemption being phased out beginning at \$50,000 (Va. Code Ann. § 58.1-322)
Washington	No state income tax	N/A
West Virginia	Military Retirement Income Exemption	Up to \$2,000 (W. Va. Cod § 11-21-12)
Wisconsin	Full Exemption	100% (Wis. Stat. § 71.05)
Wyoming	No state income tax	N/A

Source: Office of Legislative Research

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